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SIXTH PUBLIC ANNUAL REPORT

OF

MARSHALL FIELD & COMPANY

AND SUBSIDIARIES

YEAR ENDED DECEMBER 31, 1935

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SIXTH PUBLIC ANNUAL REPORT

OF

MARSHALL FIELD & COMPANY

AND SUBSIDIARIES

YEAR ENDED
DECEMBER 31, 1935

TO BE SUBMITTED TO STOCKHOLDERS AT
THE ANNUAL MEETING TO BE HELD IN
CHICAGO, ILLINOIS, TUESDAY, MARCH 10, 1936

CHICAGO, ILLINOIS, U. S. A.

MARSHALL FIELD & COMPANY

BOARD OF DIRECTORS

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MARSHALL FIELD
STANLEY FIELD
JOHN McKINLAY
CHARLES H. SCHWEPPE
JAMES SIMPSON
JAMES SIMPSON, JR.
JOHN P. WILSON
DAVID M. YATES

OFFICERS

•

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JOHN McKINLAY, *President*

FREDERICK D. CORLEY, *First Vice-President*

Vice-Presidents

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Secretary-Comptroller

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Treasurer

HORACE O. WETMORE

KENNETH E. ARMSTRONG, *Assistant Comptroller*

RALPH H. PIERCE, *Assistant Secretary*

AUSTIN T. GRAVES, *Assistant Treasurer*

TO THE STOCKHOLDERS

Classification of Activities

Past activities of our company may be classified into the following major groups:

1. Retail Division.
2. Mills Division.
3. Wholesale Division.
4. Real Estate Division.

The factors affecting these divisions are sufficiently different to make it desirable to consider each of them separately.

Retail Division

This division consisted originally of the retail store on State Street. During recent years the following have been added:

1. The three suburban stores located in Evanston, Oak Park and Lake Forest respectively.
2. The Davis Store on South State Street, Chicago.
3. Frederick & Nelson in Seattle.

This division has earned a net profit each year during the past half century except in 1932. Its earnings during the past two years have been as follows:

1934.....$1,895,968
1935..... 3,426,861

During the past two years we have initiated a program of modernizing the facilities and improving the organization and methods of this division. This program is being continued but we do not think it is necessary to make any major changes in the policies, personnel or practices of this division for it to continue to earn substantial profits. The outlook for 1936 is promising.

Mills Division

This division consists of twenty-nine mills manufacturing twenty lines of products. These mills have been acquired at various times but most of them were purchased prior to the War. The majority of them are located near the mills' headquarters at Spray, North Carolina. The mills were acquired primarily to supply products to the wholesale division but as the sales of this division declined, the mills sought other customers so they might secure a sufficient volume of sales to enable them to operate profitably. The amount sold to customers other than the wholesale represented more than 50% of the sales of the mills during the past year. It has been the policy of the company that the mills should sell to the wholesale division and to other customers on the same basis.

The mills have earned substantial profits for the company since their acquisition. Their earnings during the past two years have been as follows:

1934.....$ 47,777
1935..... 520,329

During the past year we have developed a new organization for selling their output as explained in the following discussion of the wholesale division.

Wholesale Division

The wholesale division has sold products purchased from the following:

1. The mills of our company.
2. Converters.

3. Foreign manufacturers.
4. Domestic manufacturers.

Approximately 65% of its sales have been of products purchased from the first three sources.

The wholesale division has not earned a satisfactory profit for many years. The net result of its operations during the fifteen-year period—1920 to 1934, inclusive—was a substantial loss. During the five-year period—1930 to 1934, inclusive—the accumulated losses of this division were more than $12,000,000.

During 1935, the management made an intensive study of this division. This study included a nation-wide investigation of retail buying habits and trends as well as a thorough analysis of the experience of our company in both wholesaling and manufacturing. This study showed that our manufactured products had increased rapidly in popularity during recent years but we had declined steadily in importance as a jobber. It also indicated that it is very difficult to operate successfully as both a manufacturer and a jobber.

The management decided, therefore:

1. To discontinue the selling of products other than those we manufactured, converted or imported. In other words, to discontinue selling manufactured products purchased from domestic producers.

2. To combine the remaining activities of the wholesale division with the activities of the mills division to organize the *manufacturing* division and have this division concentrate on the sale of the products produced by our mills but to sell also some products converted and imported.

The manufacturing division is now engaged in the production and distribution solely of textiles, which, for administrative purposes, have been divided into the following groups:

I. Cotton Wash Goods—woven and printed, sheer and coarse, novelty and plain.
Rayon and Cotton Wash Goods—same varieties as above.
Silk Piece Goods—same varieties as above.
Woolen Piece Goods—women's suitings, coatings, dress goods.

II. Cotton and Wool Blankets and Flannels—all types.
Bedspreads.
Sheetings and Sheets.
Table Linens—plain and fancy.
Towels and Towelling—plain and fancy.

III. Woven Drapery Fabrics—all types.
Lace Curtains and Curtain Nets.
Printed Drapery Fabrics—all types.
Wilton Rugs and Carpets.
Domestic Oriental Rugs.

IV. Women's Full-Fashioned Hosiery.
Children's Hosiery.
Men's, Women's, and Children's Knit Underwear.

V. Women's and Children's Woven Lingerie and Nightwear.
Women's Washable Cotton Frocks.

VI. Domestic and Imported Gloves for Men, Women, and Children—both fabric and leather.
Men's, Women's, and Children's Handkerchiefs.

The manufacturing division has ceased to sell the following products which we heretofore sold on a jobbing basis:

I. "Hard lines," including jewelry, handbags, toys, hardware, electric accessories, notions, toilet goods, tableware, lamps, clocks, luggage, furniture, linoleums, mattresses, etc.

II. Miscellaneous Dry Goods, including muslins, men's furnishings, women's silk ready-to-wear, batts, comfortables, corsets, women's neckwear, women's beachwear, ribbons, laces, buttons, men's hosiery, etc.

The adoption of this program has resulted in the following:

1. The retirement of a number of employes, who were formerly employed in the departments we have discontinued. We have followed a liberal policy in making adjustments with these employes.

2. A substantial decrease in our investment in inventories and accounts receivable arising from wholesale sales. Approximately $5,000,000 has been secured from a liquidation of these two items.

3. A substantial decrease in expenses. Our expense budget for the current year provides for a reduction at the rate of approximately $2,500,000 per annum.

4. A substantial decrease in sales resulting from the elimination of non-profitable items. We have ceased to sell products which formerly represented approximately 35% of the sales of the wholesale division. This will result in a decrease in sales of $15,000,000 to $18,000,000 a year unless we can secure additional volume on our manufactured products. We are convinced we can do this in a reasonable period of time, but there will inevitably be a decrease in sales in 1936.

Some unusual losses have been sustained in the liquidation of the inventories in discontinued departments and in the granting of allowances to employes whose services have been discontinued. We estimate that the operations of 1935 have been affected to the extent of more than $1,200,000 by reductions in gross profit and by such special expenses and losses as resulted from our program of liquidation and adjustment.

The losses of the wholesale division during the past two years have been as follows:

1934.....$1,288,259
1935..... 2,016,848

Real Estate Division

This division consists of the following:

1. Merchandise Mart.
2. Annex Building.
3. Miscellaneous properties such as warehouses and garages which are not now needed by the retail and manufacturing divisions.

The Merchandise Mart was available for occupancy in June, 1930, shortly after the Depression commenced. Although a substantial percentage of the rentable space of the Mart had been leased prior to its completion, it has been difficult under the conditions prevailing during the Depression to secure sufficient new tenants at rates which would yield a satisfactory return. We have refrained from seeking tenants at rates which we thought would be detrimental to the long run future of the building.

The net results for the Mart before interest during the past two years have been as follows:

1934.....$181,328 Profit.
1935..... 66,459 Loss.

Special items of income and expense account for the difference in results during the two years, for net income from tenants is slowly but steadily increasing. The management has formulated an aggressive program for seeking to improve the net results as early as possible.

The Annex is now operating at a profit. Our miscellaneous properties consist of warehouses and garages formerly used by the wholesale or retail divisions but which are not needed under our present plan of operation. Many of these are leased properties and many of the leases expire during the next five years. In the meantime, we are seeking to reduce the loss from their possession to as small an amount as possible.

Comparative Income and Expense

The earnings of the company for the past two years may be summarized as follows:

	1935	1934
Retail division	$3,426,861	$1,895,968
Wholesale division	*2,016,848**	*1,288,259**
Mills division	520,329	47,777
Real Estate division	*318,141**	*8,739**
Total	$1,612,201	$ 646,747
Other Income (from sale of securities)	—	486,020
Interest on Funded Debt (Debenture bonds, First Mortgage bonds)	1,223,025	1,299,062
Net Profit or Loss (before Federal Income Tax)	$ 389,176	*$ 166,295**
Federal Income Tax	$ 190,000	—
Net Profit for Year	$ 199,176	*$ 166,295**

*Loss

Financial Condition

The most important changes in our financial condition during the year are the following:

1. Cash has increased from $6,800,000 to $11,600,000. Cash on hand is $1,760,000 in excess of total current liabilities.

2. Accounts receivable have increased from $12,800,000 to $14,600,000. This increase is due to increased sales.

3. Inventories have decreased from $25,500,000 to $21,500,000.

4. The ratio of current assets to current liabilities has decreased from 6.5 to 1 to 4.9 to 1. This condition has been caused primarily by anticipating payment on our debenture bonds and by changes in the amount of taxes falling due during the year because of the Cook County tax program.

5. The funded debt has been decreased $1,387,000 from the amount outstanding at the beginning of the year.

During recent months we have carefully reviewed all of the properties of the company. A contingent reserve of $4,250,000 has been established by a charge to earned surplus to provide for losses which may be sustained upon the contemplated disposal of certain of the properties.

Conclusion

The adjustments in operating organization and personnel necessitated by the program we have outlined have been approximately completed. We have obtained sufficient evidence of results of the new program to lead us to believe that our company is now on the road to a sound economic future.

By Order of the Board of Directors

JAMES O. McKINSEY, *Chairman.*

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CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS:			
Cash in banks and on hand, less treasurer's drafts		$11,287,203.70	
Cash deposits in escrow (processing taxes deposited in escrow pending decision as to legality, released in January, 1936)		350,898.91	
Bonds, tax warrants, etc., at cost (quoted market price $33,300)		36,008.50	
Receivables—			
Accounts and notes receivable from customers	$14,907,480.01		
Due from suppliers, rents receivable, etc	635,231.34		
	$15,542,711.35		
Less—Reserve for doubtful accounts and discounts	943,607.22	14,599,104.13	
Merchandise inventories, quantities and condition determined by the company, priced at the lower of cost or market—			
Manufacturing-division merchandise, including raw materials and work in process of $2,551,018	$10,681,996.26		
Retail-division merchandise	10,780,580.05	21,462,576.31	
TOTAL CURRENT ASSETS			$47,735,791.55
PREPAID EXPENSES AND DEFERRED CHARGES:			
Prepaid insurance, rent, etc		$ 301,521.69	
Supply inventories		308,725.22	
Bond discount in process of amortization		182,378.00	792,624.91
INVESTMENT SECURITIES, ETC.:			
Securities and cash deposited under construction agreements		$ 154,155.00	
Miscellaneous securities, receivables, etc		81,394.70	235,549.70

FIXED ASSETS:

Classification	Cost	Reserves for Depreciation and Amortization	Net	
Retail and manufacturing properties—				
Land	$ 935,502.08	$ —	$ 935,502.08	
Leaseholds (see Note 1)	1,369,405.83	199,466.21	1,169,939.62	
Buildings and building equipment—				
On owned land	8,289,913.37	5,461,484.43	2,828,428.94	
On leased land (see Note 1)	17,328,174.56	5,692,928.38	11,635,246.18	
Equipment	17,636,236.17	11,195,355.10	6,440,881.07	
Merchandise Mart—constructed in 1929-30 (pledged under first mortgage)—				
Air rights and land	2,907,461.85	—	2,907,461.85	
Building and equipment	25,589,390.43	3,232,580.29	22,356,810.14	
TOTAL FIXED ASSETS	$74,056,084.29	$25,781,814.41	$48,274,269.88	48,274,269.88
GOODWILL, TRADE-MARKS, ETC				1.00
				$97,038,237.04

NOTES:

(1) Rentals payable under long-term leases are at present approximately $1,400,000 per year.

(2) Contingent liability under letters of credit—$450,000.

(3) The Company has granted options to Mr. J. O. McKinsey (a) to purchase, after October 1, 1936, and prior to December 31, 1938, 50,000 shares of unissued common stock of the Company at $10 per share, or in lieu thereof, to receive a sum of money equal to the amount by which the market price of 50,000 shares of common

LD & COMPANY
CORPORATION
SIDIARIES

SHEET—DECEMBER 31, 1935

LIABILITIES

CURRENT LIABILITIES:			
Accounts payable—			
Trade creditors	$ 2,978,746.83		
Customers' credit balances, merchandise certificates, etc	234,941.74	$ 3,213,688.57	
Accrued salaries, wages and retirement allowances		1,057,615.58	
Accrued real-estate and personal-property taxes, etc		3,082,862.55	
Other accrued expenses		747,984.12	
Federal income taxes for current and prior years (subject to final determination by the Treasury Department)		421,051.86	
Debenture bonds, January 1, 1937 maturity, called for payment February 1, 1936		613,000.00	
First-mortgage bonds maturing in 1936		700,000.00	
Interest on debenture bonds due January 1, 1936	$ 193,488.75		
Less—Cash deposited with Trustee	193,488.75	—	
TOTAL CURRENT LIABILITIES			$ 9,836,202.68
FUNDED DEBT (current maturities included above):			
5% first-mortgage serial gold bonds maturing serially June 1, 1937 to June 1, 1949		$14,500,000.00	
4½% debenture gold bonds maturing serially January 1, 1938 to January 1, 1946		7,986,500.00	22,486,500.00
RESERVE FOR POSSIBLE LOSSES ON CONTEMPLATED DISPOSITION OF PROPERTIES AND FOR ADJUSTMENT OF LEASES—authorized by the Board of Directors			4,250,000.00
CAPITAL STOCK AND SURPLUS:			
Preferred stock—7% cumulative, $100-par value—callable at $120—			
Authorized, 400,000 shares			
Issued and outstanding, 296,190 shares (dividends in arrears since March 31, 1932—$7,774,987.50)		$29,619,000.00	
Common stock—no-par value—			
Authorized, 2,000,000 shares			
Issued, 1,400,000 shares, at stated value		14,000,000.00	
		$43,619,000.00	
Paid-in surplus		5,001,898.65	
Earned surplus (of which $226,773.97 is restricted by reason of purchase of treasury stock)		12,071,409.68	
Capital stock and surplus before deducting treasury stock		$60,692,308.33	
Less—Treasury common stock, 15,278 shares at cost		226,773.97	
Capital stock and surplus, net			60,465,534.36
			$97,038,237.04

stock exceeds $500,000; and (b) to purchase, after December 31, 1937, and within such time as is provided by Mr. McKinsey's contract of employment, but in no event later than December 31, 1940, an additional 50,000 shares of common stock at the book value thereof as of December 31, 1937, provided that said contract remains in effect on December 31, 1937. Insofar as the foregoing options involve the sale of stock by the Company they are subject to all necessary authority being secured from the stockholders.

MARSHALL FIELD & COMPANY AND SUBSIDIARIES

CONSOLIDATED PROFIT-AND-LOSS AND EARNED-SURPLUS ACCOUNTS
For the Year Ended December 31, 1935

CONSOLIDATED PROFIT-AND-LOSS ACCOUNT

NET SALES TO CUSTOMERS		$108,902,643.03
RENTAL INCOME FROM TENANTS		1,908,015.06
Total net sales and rentals		$110,810,658.09
COST OF SALES AND OPERATING EXPENSES:		
Cost of sales and operating expenses exclusive of items listed below	$101,483,257.30	
Rentals paid under ground and building leases	1,796,523.48	
Depreciation of buildings and equipment and amortization of leaseholds	2,463,023.95	
Real estate, personal property, franchise taxes, etc.	1,804,550.29	
Occupation ($1,396,802.83), processing and excise taxes	1,651,101.38	109,198,456.40
Net profit before interest and Federal income tax		$ 1,612,201.69
INTEREST CHARGES AND FEDERAL INCOME TAX:		
Interest on first-mortgage bonds	$ 783,333.00	
Interest on debenture bonds (including amortization of bond discount)	439,692.88	
Provision for Federal income tax	190,000.00	1,413,025.88
Net profit for year		$ 199,175.81

CONSOLIDATED EARNED-SURPLUS ACCOUNT

BALANCE AT DECEMBER 31, 1934	$ 16,122,233.87
ADD—Net profit for current year	199,175.81
	$ 16,321,409.68
DEDUCT—Reserve for possible losses on contemplated disposition of properties and for adjustment of leases—authorized by the Board of Directors	4,250,000.00
BALANCE AT DECEMBER 31, 1935	$ 12,071,409.68

ARTHUR ANDERSEN & CO.
ACCOUNTANTS AND AUDITORS

135 SOUTH LA SALLE STREET
CHICAGO

To the Board of Directors,
Marshall Field & Company:

We have made an examination of the consolidated balance sheet of MARSHALL FIELD & COMPANY (an Illinois corporation) AND SUBSIDIARY COMPANIES as at December 31, 1935, and of the statement of consolidated profit and loss and surplus for the year ended that date. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence, and obtained information and explanations from officers and employes of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statement of profit and loss and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the financial position of the companies at December 31, 1935, and the results of their operations for the year ended that date.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 20, 1936.